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April 30, 2013

*VIA ELECTRONIC FILING*
Ms. Jocelyn Boyd
Chief Clerk and Administrator
Public Service Commission of South Carolina
Synergy Business Park, Saluda Building
101 Executive Center Drive
Columbia, SC 29210

**RE: Petition for Accounting Order**
**Docket No. 2013-__-E**

Dear Ms. Boyd:

Enclosed for filing on behalf of Duke Energy Progress, Inc.[1] ("the Company"), is the Company's request, pursuant to S.C. Code Ann. § 58-27-1540 (Supp. 2012) and 26 S.C. Code Ann. Reg. 103-825 (2012), for the Public Service Commission of South Carolina to issue an accounting order for regulatory accounting purposes authorizing the Company to defer in a regulatory asset account certain post-in-service costs being incurred in connection with the Company's new Wayne County Combined Cycle Generating Facility.

By copy of this letter, we are also serving the South Carolina Office of Regulatory Staff with a copy of the enclosed Petition. Should you have any questions, please contact me.

Very truly yours,

Charles A. Castle

Enclosures

cc: Courtney Edwards

[1] Formerly known as Carolina Power & Light Company d/b/a Progress Energy Carolinas, Inc.

**BEFORE**
**THE PUBLIC SERVICE COMMISSION OF**
**SOUTH CAROLINA**

**DOCKET NO. 2013-__-E**

| | | |
|---|---|---|
| In the Matter of: | ) | |
| | ) | |
| Duke Energy Progress, Inc.'s Petition for An Accounting Order To Defer the Incremental Costs Associated with the Wayne County Combined Cycle Generating Facility | ) ) ) ) ) ) | **CERTIFICATE OF SERVICE** |

This is to certify that I have caused to be served this the 30th day of April, 2013, one copy of Duke Energy Progress, Inc.'s **Petition for An Accounting Order To Defer the Incremental Costs Associated with the Wayne County Combined Cycle Generating Facility** via email and regular mail to the person(s) named below at the address set forth:

Courtney Edwards, Esq.
Office of Regulatory Staff
1401 Main Street, Suite 900
Columbia, South Carolina 29201

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**BEFORE**
**THE PUBLIC SERVICE COMMISSION OF**
**SOUTH CAROLINA**

**DOCKET NO. 2013-___-E**

| | | |
|---|---|---|
| In the matter of: | ) | |
| | ) | **DUKE ENERGY PROGRESS,** |
| Duke Energy Progress, Inc.'s Petition for An | ) | **INC.'S PETITION FOR AN** |
| Accounting Order To Defer the Incremental | ) | **ACCOUNTING ORDER** |
| Costs Associated with the Wayne County | ) | |
| Combined Cycle Addition | ) | |

Duke Energy Progress, Inc.[1] ("Duke Energy Progress" or the "Company") hereby respectfully petitions the Public Service Commission of South Carolina ("Commission"), pursuant to S.C. Code Ann. § 58-27-1540 (Supp. 2012) and 26 S.C. Code Ann. Reg. 103-825 (2012), to issue an accounting order for regulatory accounting purposes authorizing the Company to defer in a regulatory asset account certain post-in-service costs being incurred in connection with Duke Energy Progress' new 920 megawatt Wayne County Combined Cycle natural gas-fired generating facility ("Wayne CC") and associated transmission upgrades from the date of its commercial operation in December 2012. The costs the Company is seeking to defer for Wayne CC are the related incremental cost of capital (Duke Energy Progress will reflect the deferral of incurred interest expense on the full amounts invested in the facilities during the cost deferral period, and will then recognize in earnings the remaining cost of capital amounts on a pro rata basis as such amounts are included in billings to customers), the incremental depreciation expense and the incremental property taxes. The Company is not seeking to defer any costs related incremental non-fuel O&M for Wayne CC, as those costs are

[1] Formerly known as Carolina Power & Light Company d/b/a Progress Energy Carolinas, Inc.

offset by the O&M saved as a result of the retirement of the Company's 400 MW Lee coal fired units.[2] The annual costs are approximately $9.9 million as allocated to SC retail operations.

The unrecovered plant cost of these assets is approximately $689 million ($70.4 million on a South Carolina retail basis); the potential adverse impact to the Company's earnings associated with these asset additions (in the absence of the requested deferred accounting treatment) equates to approximately 108 basis points in the Company's South Carolina Retail rate of return on common equity. Duke Energy Progress will suffer a sizeable decline in its earnings unless the Company is permitted to defer the cost associated with Wayne CC. Avoiding such an adverse earnings impact is important to assure that the Company can report sustainable financial results necessary to maintain access to needed capital on reasonable terms, particularly during this time of global financial and credit crisis. At the same time, customers realize the benefits from the plant, including reduced fuel costs, beginning with the commercial operation date of this generating plant.

The request for relief set forth herein will not involve a change to any of the Company's retail rates or prices at this time, or require any change in any Commission rule, regulation or policy. In addition, the issuance of the requested accounting order will not prejudice the right of any party to address these issues in the subsequent general rate case proceeding. Accordingly, neither notice to the public at-large, nor a hearing is required regarding this Petition.

In support thereof, Duke Energy Progress respectfully shows the following:

**Name, Address and Description of Company**

1. Duke Energy Progress is a public utility operating in the states of South Carolina and North Carolina where it is engaged in the generation, transmission, distribution, and sale of

[2] Because the Wayne CC addition coincided with the retirement of the Company's 400 MW Lee coal-fired units at the same site, Duke Energy Progress is not asking for inclusion of any incremental Wayne CC O&M in its deferred revenue requirements.

electricity to the public. Its general offices are located at 410 S. Wilmington Street, Raleigh, North Carolina; and its mailing address is Post Office Box 1551, Raleigh, NC 27602-1551.

**Notices and Communications**

2. The attorneys for Duke Energy Progress to whom all correspondence should be addressed are:

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**The Wayne CC Facility**

3. The North Carolina Utilities Commission granted Duke Energy Progress a certificate of public convenience and necessity to construct the Wayne CC facility by order issued October 22, 2009 in Docket No. E-2 Sub 960. It consists of three combustion turbines each with a heat recovery steam generator to produce steam to drive a single turbine. The total generating capacity of the facility is approximately 920 MW with a commercial in-service date in December 2012.

**Financial Consequences of the Company's Request**

4. In its fourth quarter 2012 earnings surveillance report filed with the Commission, Duke Energy Progress reported a return on common equity of 4.81% per books and 4.11% adjusted, both of which are significantly less than the rate of return on jurisdictional common equity approved by the Commission in the Company's last general rate case in Docket No. 88-11-E. Without approval of this deferral request, the Company will already be under-earning during the effective period of the new rates approved in its last general rate case. The $9.9

million of annual costs (as allocated to South Carolina retail) Duke Energy Progress seeks to defer is material and could substantially harm the Company's earnings during the time deferral is not granted. To mitigate the impact of the requested deferral, the Company will propose in its next rate case to recover the deferred costs over a multi-year period.

5. The Company must remain financially strong to comply with regulatory and environmental requirements, meet customer demand, and modernize its generation fleet and power delivery system. Many of the fundamental financial ratios reviewed by the various rating agencies in rating the creditworthiness of Duke Energy Progress' debt could be adversely impacted by a denial of the requested deferred accounting treatment. Approval of this deferral request will help mitigate the potential for a significant deterioration in earnings, which will benefit both the Company and its customers in helping assure investors' confidence in the Company and help assure access to needed capital on reasonable terms.

**Commission Precedent For Deferral Accounting**

6. The Commission has historically authorized deferral accounting for post-in-service costs of major generating plant additions from the date the units were placed in service to the date rates reflected the cost of the plants. For example, in Duke Energy Carolinas, LLC's ("Duke Energy Carolinas") 1991 rate case, the Commission authorized the deferral of $15.607 million of the costs associated with the Bad Creek Pumped Hydroelectric Station "during the period between commercial operation of each unit and the date of the Commission's order in this proceeding." *Order Approving Rate Increase*, Order No, 1991-1022 (November 18, 1991), Docket No. 1991-216-E, p. 31. The Commission amortized those costs on a levelized basis over a multi-year period. Likewise, the Commission has authorized similar deferral accounting treatment for Duke Energy Carolinas and other utilities for the costs of other generating plants

and major capital expenditures. See, e.g., *Accounting Order*, Order No. 2009-254 (April 9, 2009), Docket No. 2009-59-E; *Accounting Order to Defer Certain Environmental Compliance Costs at Unit 5 of the Cliffside Steam Station*, Order No. 2011-80 (February 1, 2011), Docket No. 2010-392-E; *Order Granting Petition for Accounting Order*, Order No. 2012-208 (April 3, 2012), Docket No. 2012-57-E.

7. Most recently, the Commission approved Duke Energy Carolinas' petitions for a deferral of the post in-service costs of its Buck Natural Gas Combined Cycle plant and the Bridgewater Hydroelectric Generating Plant in Order No. 2012-208, Docket No. 2012-57-E ("Buck and Bridgewater Deferral Order") and for a deferral of the post in-service costs of Cliffside Steam Station Unit 6, its Dan River Natural Gas Combined Cycle plant and capacity-related modifications to its McGuire Nuclear Station in Order No. 2013-237, Docket No. 2013-99-E ("Cliffside, Dan River and McGuire Deferral Order"). In those petitions, Duke Energy Carolinas requested an accounting order allowing it to defer the post in-service incremental cost of capital, depreciation expense, and property taxes (as well as the non-fuel O&M) related to those plants; just as Duke Energy Progress has requested for similar costs relating to Wayne CC in the instant petition. Had the Commission not approved Duke Energy Carolinas' requested deferrals for its Buck and Bridgewater costs and Cliffside, Dan River and McGuire costs, the respective impacts to its authorized return would have been 29 and 105 basis points. The potential impact to Duke Energy Progress' authorized return related to the current request is approximately 108 basis points. As with the Buck, Bridgewater, Cliffside and Dan River plants at the time of Duke Energy Carolinas' requests in those petitions, Wayne CC is a certified plant that either is currently benefitting Duke Energy Progress customers. Accordingly, the deferral request in this case is markedly similar to previous deferrals authorized by the Commission,

particularly the Buck and Bridgewater Deferral Order and the Cliffside, Dan River and McGuire Deferral Order.

**Conclusion**

8. The accounting order granting the relief Duke Energy Progress seeks in this Petition will not preclude the Commission from addressing the reasonableness of the costs deferred in the regulatory asset account in the next general rate proceeding. Therefore, the Company petitions the Commission to defer as a regulatory asset the South Carolina Retail allocation portion of the revenue requirement associated with its Wayne CC as described herein, until such time as rate recovery for these assets is provided in Duke Energy Progress' Commission-approved base rates.

Respectfully submitted this the 30th day of April, 2013.

DUKE ENERGY PROGRESS, INC.

By ______________________

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